



New South Wales
Treasury Corporation

Ashfield Council

Financial Assessment, Sustainability and Benchmarking Report

05 March 2013

**Prepared by NSW Treasury Corporation for Ashfield Council, the Division of Local Government
and the Independent Local Government Review Panel.**

Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by the Division of Local Government (DLG) as detailed in TCorp's letters of 22 December 2011 and 28 May 2012. The report has been prepared to assist the DLG and the Independent Local Government Review Panel in its consideration of the Sustainability of each local government area in NSW.

The report has been prepared based on information provided to TCorp as set out in Section 2.2 of this report. TCorp has relied on this information and has not verified or audited the accuracy, reliability or currency of the information provided to it for the purpose of preparation of the report. TCorp and its directors, officers and employees make no representation as to the accuracy, reliability or completeness of the information contained in the report.

In addition, TCorp does not warrant or guarantee the outcomes or projections contained in this report. The projections and outcomes contained in the report do not necessarily take into consideration the commercial risks, various external factors or the possibility of poor performance by the Council all of which may negatively impact the financial capability and sustainability of the Council. The TCorp report focuses on whether the Council has reasonable capacity, based on the information provided to TCorp, to take on additional borrowings, and Council's future Sustainability, within prudent risk parameters and the limits of its financial projections.

The report has been prepared for Ashfield Council, the DLG and the Independent Local Government Review Panel. TCorp shall not be liable to Ashfield Council or have any liability to any third party under the law of contract, tort and the principles of restitution or unjust enrichment or otherwise for any loss, expense or damage which may arise from or be incurred or suffered as a result of reliance on anything contained in this report.

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Section 1 Executive Summary

This report provides an independent assessment of Ashfield Council's (the Council) financial capacity and its future Sustainability. The analysis is based on a review of the historical performance, current financial position, and long term financial forecasts. It also benchmarks the Council against its peers using key ratios.

TCorp's approach has been to:

- Review the most recent four years of Council's consolidated financial results
- Conduct a detailed review of the Council's 10 year financial forecasts, with a particular focus on a council's General Fund. Where a council operates a Water or other Fund the financial capacity of these other funds may be reviewed where considered necessary.

The Council has been reasonably well managed over the review period based on the following observations:

- Council's underlying operating performance (measured using EBITDA) has increased by \$2.1m since 2009 to \$4.6m in 2012
- 75.5% of the Council's revenue base is derived from own sourced revenue (annual charges and user charges and fees). They can rely on these revenue streams on an ongoing basis

The Council reported \$0.3m of Infrastructure Backlog in 2012 which represents 0.10% of its infrastructure asset value of \$177.6m. Other observations include:

- Council's Infrastructure Backlog has remained static since 2010
- Council's backlog is in buildings and other structures, and drainage assets only. They do not have any Infrastructure Backlog in roads and do not have any water or sewerage infrastructure assets
- Council is spending sufficiently on maintaining their existing assets at an acceptable level
- Compared to benchmark ratios Council appear to be underspending on asset renewal

The key observations from our review of Council's 10 year forecasts for its General Fund are:

- The forecast shows deficit positions are expected in all 10 years when capital grants and contributions are excluded. The deficit increases marginally over the 10 year period and this highlights that Council could face long term Sustainability issues
- Council's own source revenue is above benchmark for the entire forecast period
- Council's DSCR falls below benchmark in 2016 following as a result of the refinance of their existing Civic Centre redevelopment loan
- The capital expenditure is below required levels for the entire forecast period

Based on our review Council is currently in a sound Sustainability position. Our key observations are:

- Council has been well managed over the review period
- Maintenance spending has been sufficient to maintain existing assets
- Historically, Council's liquidity and operating performance have been at or above benchmark levels
- Council's forecast operating result, excluding capital grants and contributions, shows a deteriorating position
- Council's current LTFP shows a weakening financial position over the forecast period with liquidity trending downward and with capital expenditure at levels well below what is required to maintain assets at satisfactory standard
- Council's Interest Cover and DSCR are both above benchmark for the majority of the forecast period indicating they have the capacity to service their current borrowings
- The long term Sustainability of the Council is dependent on Council being able to diversify and add to its income sources and maintain their expenses at relatively low levels

In respect of the Benchmarking analysis TCorp has compared the Council's key ratios, on a consolidated basis, with other councils in DLG group 2. The key observations are:

- Council's financial flexibility is sound as indicated by the Own Source Operating Ratio being above benchmark and the group average. However the Operating Ratio is in a deteriorating position falling below the group average and benchmark in the medium term
- Council was in a sufficiently liquid position although this is forecast to reduce below benchmark and the group's average liquidity level over the medium term
- Council's DSCR and Interest Cover Ratio while below the group average, were above benchmark over the review period which indicates Council is making greater use of debt when compared to other Councils.
- Council has a comparatively low level of Infrastructure Backlog. The Asset Maintenance Ratio is above benchmark levels and outperforming the group average. The Building and Infrastructure Asset Renewal Ratio has generally tracked benchmark and the group average and while it declined in 2011 it has increased above the group average in 2012. Council's Capital Expenditure Ratio has generally been above benchmark and outperformed the group average however it is forecast to decline in the medium term in line with other councils.

Section 2 Introduction

2.1: Purpose of Report

This report provides the Council with an independent assessment of their financial capacity, Sustainability and performance measured against a peer group of councils. It will complement their internal due diligence, and the IP&R system of the Council and the DLG, together with the work being undertaken by the Independent Local Government Review Panel.

The report is to be provided to the DLG and the Independent Local Government Review Panel.

The key areas focused on are:

- The financial capacity of the Council
- The long term Sustainability of the Council
- The financial performance of the Council in comparison to a range of similar councils and measured against prudent benchmarks

2.2: Scope and Methodology

TCorp's approach was to:

- Review the most recent four years of the Council's consolidated audited accounts using financial ratio analysis. In undertaking the ratio analysis TCorp has utilised ratio's substantially consistent with those used by Queensland Treasury Corporation (QTC) initially in its review of Queensland Local Government (2008), and subsequently updated in 2011
- Conduct a detailed review of the Council's 10 year financial forecasts including a review of the key assumptions that underpin the financial forecasts. The review of the financial forecasts focused on the Council's General Fund
- Identify significant changes to future financial forecasts from existing financial performance and highlight risks associated with such forecasts, including those that could impact Council's Sustainability
- Conduct a benchmark review of a Council's performance against its peer group
- Prepare a report that provides an overview of the Council's existing and forecast financial position and its capacity to meet increased debt commitments and achieve long term Sustainability
- Conduct a high level review of the Council's IP&R documents for factors which could impact the Council's financial capacity, performance and Sustainability

In undertaking its work, TCorp relied on:

- Council's audited financial statements (2008/09 to 2011/12)
- Council's financial forecast model
- Council's IP&R documents
- Discussions with Council officers
- Other publicly available information such as information published on the IPART website

Definition of Sustainability

In conducting our reviews, TCorp has relied upon the following definition of sustainability to provide guidance:

"A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community."

Benchmark Ratios

In conducting our review of the Councils' financial performance, forecasts and Sustainability we have measured performance against a set of benchmarks. These benchmarks are listed below.

Benchmarks do not necessarily represent a pass or fail in respect of any particular area. One-off projects or events can impact a council's performance against a benchmark for a short period. Other factors such as the trends in results against the benchmarks are critical as well as the overall performance against all the benchmarks.

As councils can have significant differences in their size and population densities, it is important to note that one benchmark does not fit all. For example, the Cash Expense Ratio should be greater for smaller councils than larger councils as a protection against variation in performance and financial shocks. Therefore these benchmarks are intended as a guide to performance.

The Glossary attached to this report explains how each ratio is calculated.

Ratio	Benchmark
Operating Ratio	> (4.0%)
Cash Expense Ratio	> 3.0 months
Unrestricted Current Ratio	> 1.50x
Own Source Operating Revenue Ratio	> 60.0%
Debt Service Cover Ratio (DSCR)	> 2.00x
Interest Cover Ratio	> 4.00x
Building and Infrastructure Backlog Ratio	< 0.02x
Asset Maintenance Ratio	> 1.00x
Building and Infrastructure Asset Renewal Ratio	> 1.00x
Capital Expenditure Ratio	> 1.10x

2.3: Overview of the Local Government Area

Ashfield LGA	
Locality & Size	
Locality	Inner Sydney
Area	8.3km ²
DLG Group	2
Demographics	
Population as at 2011	41,214
% under 19	20%
% between 20 and 59	54%
% over 60	26%
Expected population 2021	45,769
Operations	
Number of employees (FTE)	174
Annual revenue	\$32.2m
Infrastructure	
Roads	111km
Bridges	1
Infrastructure backlog value	\$0.3m
Total infrastructure value	\$177.6m

Ashfield Council Local Government Area (LGA) lies at the heart of Sydney's Inner West. The LGA is 8km west of Sydney's CBD and 7km north-west of Sydney International Airport. Neighbouring local government areas include Canada Bay, Leichhardt, Marrickville, Canterbury, Burwood and Strathfield.

The LGA consists of a series of neighbourhoods including Ashfield, Summer Hill, Haberfield, Ashbury, Croydon and Hurlstone Park.

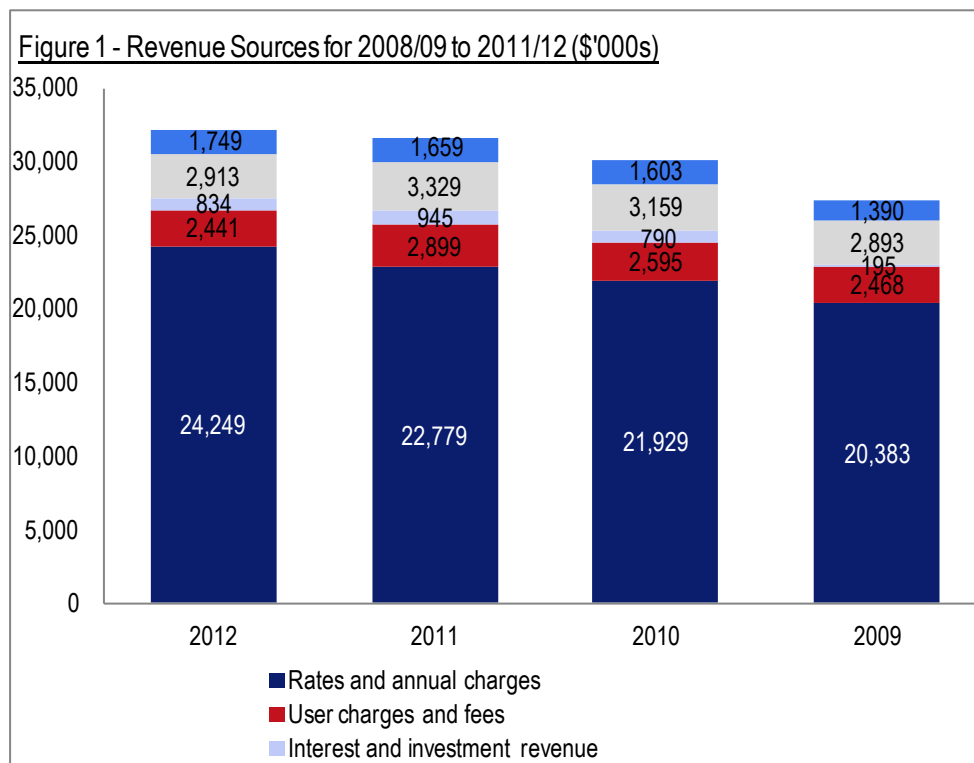
The current population of 41,214 is expected to grow by 11% to 45,769 in 2021.

Council had 174 full-time employees at 30 June 2012.

Section 3 Review of Financial Performance and Position

In reviewing the financial performance of the Council, TCorp has based its review on the annual audited accounts of the Council unless otherwise stated.

3.1: Revenue



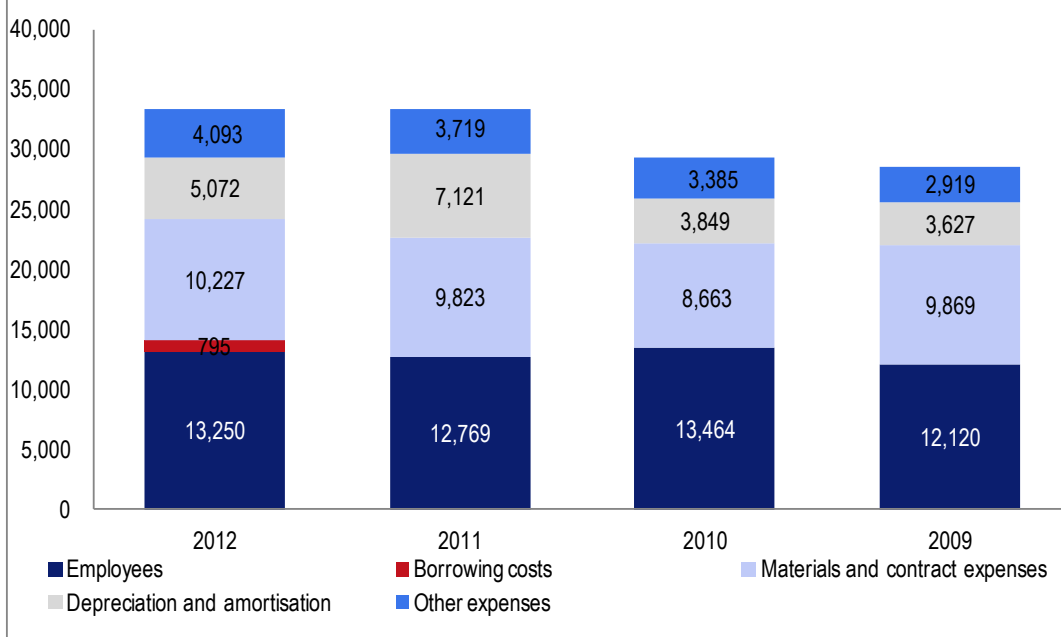
Key Observations

- Total revenue, excluding capital grants and contributions, increased by 17.8% over the four year period to \$32.1m in 2012. Rates and annual charges have increased by 18.9% (\$3.9m) since 2009. In recent years, Council has had three SRVs. In 2010 DLG approved an SRV of 7.5% (including rate peg) for a period of five years from 2010. The funds raised are being used to fund a range of infrastructure projects. When the SRV expires in 2014, whilst Council must reduce its general income by the amount raised by the SRV over the period (approximately \$0.7m), the various projects will have been completed. In 2007 DLG approved an SRV of 8.75% (including rate peg) which also provides funds for capital expenditure programs. This is a permanent SRV and Council do not need to reduce their general income at any stage. A third SRV of 9.8% (including rate peg) commenced in 2008, provides funds for the redevelopment of Council's civic centre. This SRV is also permanent.
- In 2012 rates and annual charges increased by 6.5% (\$1.5m) driven by an increase of \$1.0m in domestic waste management services following government levy increases.
- User fees and charges have fluctuated over the four year period with an overall decrease of 1.0% (\$0.02m) since 2009. 2011 increased by \$0.3m due to increased revenue from regulatory/statutory fees and park rents. Both these items decreased in 2012.

- Grants and contributions increased in 2010 and 2011 primarily due to a grant for the Cooks River Greenway project which will be completed in 2012. 2012 operating grants were also higher due to prepayment of half of the 2013 Financial Assistance Grants (FAG).

3.2: Expenses

Figure 2 - Expenses for 2008/09 to 2011/12 (\$'000s)



Key Observations

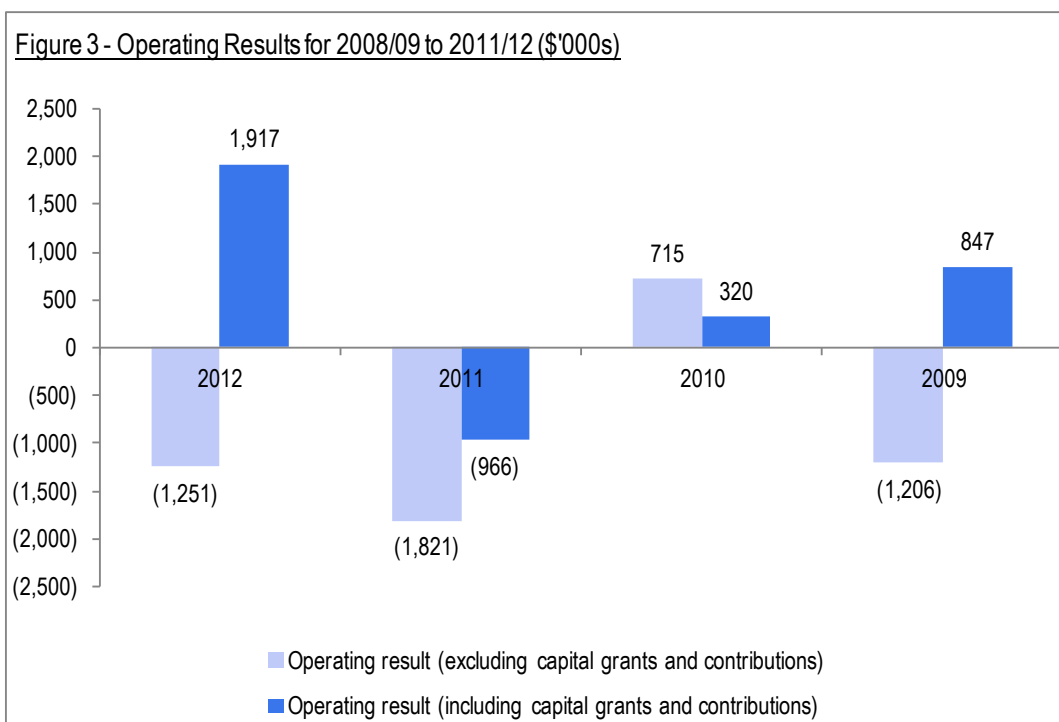
- Council's expenses increased by 17.2% (\$4.9m) since 2009 to \$33.4m in 2012.
- Employee costs increased in 2010 by 11.1% driven by an increase of \$0.6m in workers compensation insurance. A slight increase in the number of claims as well as an increase in the dollar amount of claims caused this increase. There was also a 5.2% (\$0.5m) increase in salaries and wages in 2010 due to an increase in the number of full time equivalent staff by 5 to 177. 2011 saw a decrease of \$0.7m in employee costs caused by increased staff turnover.
- Borrowing costs of \$0.8m were expensed in 2012. In 2011 borrowing costs were capitalised however when stage I and II of the Civic Centre was completed in 2012 these costs were again expensed.
- Materials and contracts expenses increased by 13.4% (\$0.8m) in 2011 due to an increase in contractor costs for the Civic Centre redevelopment and tipping fees.
- The Asset Revaluations process resulted in the value of Council's roads, bridges, footpaths and other structures increasing by \$85.6m since 2009 to \$177.5m in 2012. This resulted in the 2011 depreciation charge increasing by \$3.3m to \$7.1m. In 2012 a review of the Asset Management Plan (AMP) was undertaken and resulted in Council's depreciation expense decreasing by almost \$2.0m p.a.

3.3: Operating Results

TCorp has made some standard adjustments to focus the analysis on core operating council results. Grants and contributions for capital purposes, realised and unrealised gains on investments and other assets are excluded, as well as one-off items which Council have no control over (e.g. impairments).

TCorp believes that the exclusion of these items will assist in normalising the measurement of key performance indicators, and the measurement of Council's performance against its peers.

All items excluded from the income statement and further historical financial information is detailed in Appendix A.



Key Observations

- Council has posted net operating deficits (excluding capital grants and contributions) in three of last four years. 2010 had an operating surplus excluding capital grants and contributions driven by increased rates revenue and decreased materials and contracts expenses. The \$3.3m increase in depreciation in 2011 had a negative impact on the operating result that year.
- Council expenses include a non-cash depreciation expense, (\$5.0m in 2012), which has increased by \$1.4m since 2009 following the Asset Revaluations process. The depreciation expense decreased by \$1.9m in 2012 following a review of Council's AMP. Whilst the non-cash nature of depreciation can favourably impact on ratios such as EBITDA that focus on cash, depreciation is an important expense as it represents the allocation of the value of an asset over its useful life.

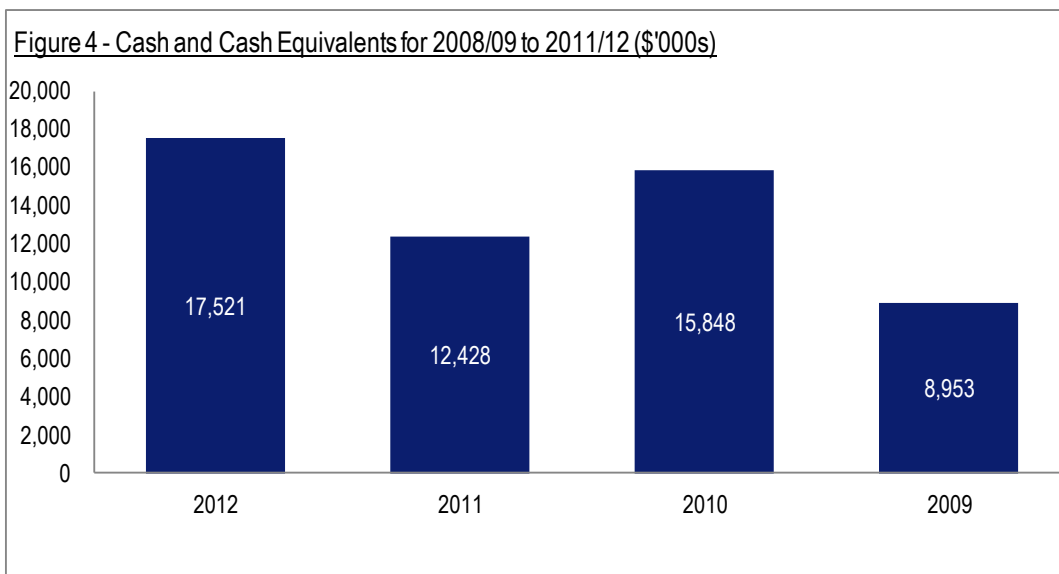
3.4: Financial Management Indicators

Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA (\$'000s)	4,616	5,300	4,564	2,421
Operating Ratio	(3.9%)	(5.8%)	2.4%	(4.4%)
Interest Cover Ratio	5.81x	0	0	0
Debt Service Cover Ratio	4.14x	16.56x	0	0
Unrestricted Current Ratio	3.29x	2.53x	2.15x	2.58x
Own Source Operating Revenue Ratio	75.5%	79.1%	80.7%	77.8%
Cash Expense Ratio	7.6 months	5.7 months	7.5 months	4.3 months
Net assets (\$'000s)	243,690	242,406	243,398	191,841

Key Observations

- Council's underlying operating performance (measured using EBITDA) has increased marginally from 2009 to \$4.6m in 2012.
- The Operating Ratio has been above benchmark in three of the four years.
- Council's Interest Cover Ratio was above benchmark in 2012. While Council had a principal repayment in 2011 their interest costs were capitalised and therefore there is no Interest Cover Ratio prior to 2012.
- The DSCR was also well above benchmark in 2011 and 2012 indicating Council has flexibility in regard to carrying more debt.
- The Unrestricted Current Ratio has been well above the benchmark of 1.5x in all four years indicating Council had sound liquidity.
- The Own Source Operating Ratio has been above benchmark in all four years indicating Council had sufficient financial flexibility.
- Council's Net Assets have increased by approximately \$51.8m between 2009 and 2012 due to Asset Revaluations which have increased the value of roads, bridges and drainage infrastructure.
- When the Asset Revaluations are excluded, the underlying trend in each year has been an increase in the infrastructure, property, plant and equipment (IPP&E) asset base with asset purchases being greater than the combined value of disposed assets and annual depreciation. Over the three years this amounted to a \$6.4m increase in IPP&E assets.
- Council has total borrowings of \$10.9m representing 4.5% of Net Assets.

3.5: Statement of Cashflows



Key Observations

- Cash and cash equivalents have fluctuated over the period increasing in 2010 and 2012 when Council undertook additional borrowings of \$9.5m and \$2.1m respectively. A decrease in IPP&E purchases and increased grants in 2012 also contributed to the increase in the cash balance that year.
- In 2010 Council drew down a \$9.5m loan for the Civic Centre Redevelopment. The repayment of this debt is being funded by an SRV. The \$2.1m loan drawn in 2012 was also for the Civic Centre and will be repaid from general income.
- The cash balances along with the Unrestricted Current Ratio indicate Council had a satisfactory level of liquidity.
- Of the \$17.5m in cash and equivalents, \$4.2m is externally restricted, \$9.5m is internally restricted and \$3.8m is unrestricted.
- Council's cash and investment portfolio comprises \$0.7m in cash, \$1.3m in deposits on call, \$15.5m in short term deposits and \$0.04m in CDO's.

3.6: Capital Expenditure

The following section predominantly relies on information obtained from Special Schedules 7 and 8 that accompany the annual financial statements. These figures are unaudited and are therefore Council's estimated figures.

3.6(a): Infrastructure Backlog

Figure 5 - Infrastructure Backlog for 2008/09 to 2011/12(\$'000s)

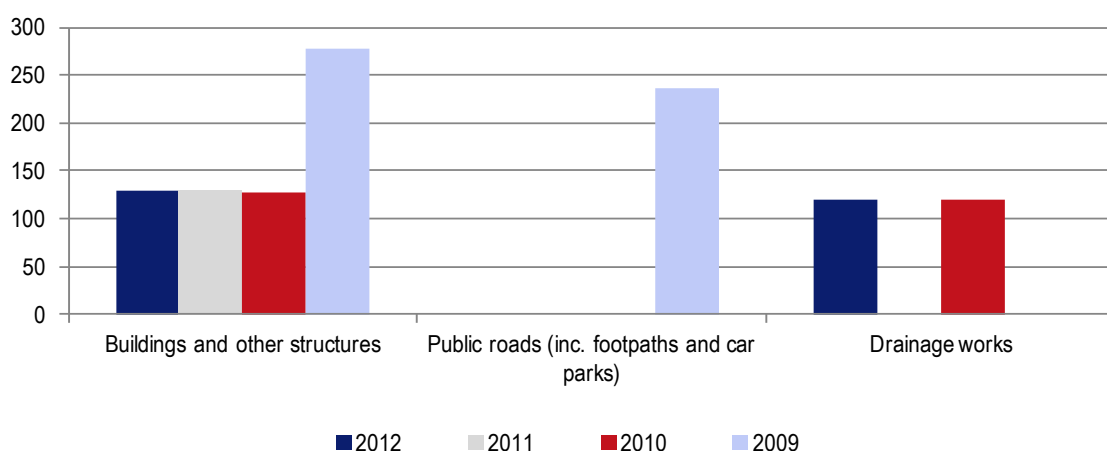
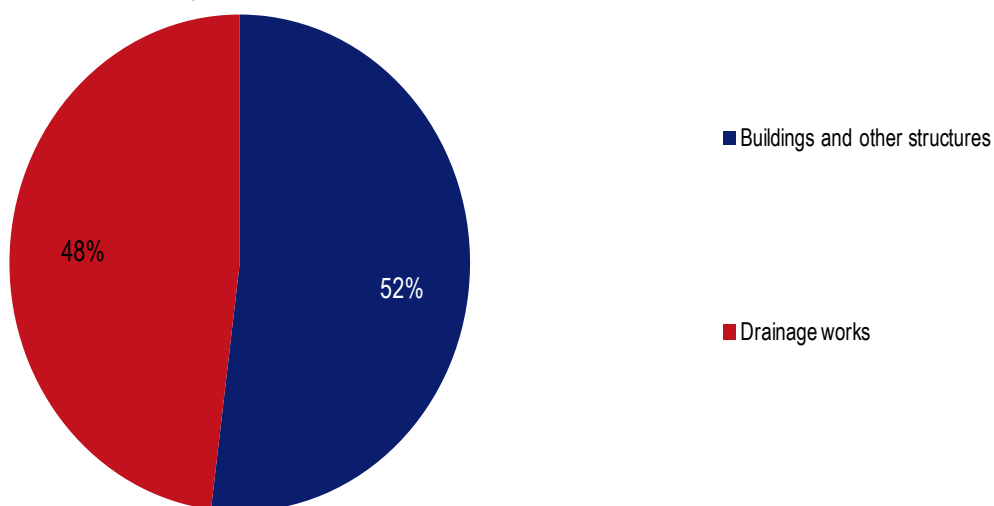


Figure 6 - Infrastructure Backlog Composition for 2011/12



Council reported a \$0.2m Infrastructure Backlog in 2012, of which 52.0% (\$0.1m) related to buildings and other structures. Council has not reported any roads assets backlog however this is likely to change in their 2013 Financial Reports. Council does not have any water or sewer infrastructure assets. Sydney Water supplies water to Ashfield LGA and maintains the water and sewerage Infrastructure Assets.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard (\$'000s)	250	130	247	513
Required annual maintenance (\$'000s)	1,638	1,170	1,219	619
Actual annual maintenance (\$'000s)	1,851	1,622	1,413	1,166
Total value of infrastructure assets (\$'000s)	177,570	164,255	169,535	91,899
Total assets (\$'000s)	262,728	259,382	260,899	198,501
Building and Infrastructure Backlog Ratio	0.00x	0.00x	0.00x	0.01x
Asset Maintenance Ratio	1.13x	1.39x	1.16x	1.88x
Building and Infrastructure Renewals Ratio	0.95x	0.15x	0.98x	1.10x
Capital Expenditure Ratio	0.81x	1.41x	2.20x	0.97x

The Building and Infrastructure Backlog Ratio and the Asset Maintenance Ratio have been above benchmark over the four year period which reflects Council is spending at sufficient levels to maintain their assets at the required levels.

Council's Building and Infrastructure Asset Renewals Ratio was marginally below the benchmark of 1.0x in 2010 and 2012 which indicate Council is spending at levels below the required amount on asset renewal. The ratio fell significantly below benchmark in 2011 due to a delay on some of Council's infrastructure program which was carried over to 2012.

The Capital Expenditure Ratio, which takes into account assets which improve performance or capacity, was above benchmark level in 2010 and 2011 but below benchmark in 2012. This was due to the completion of Phase I and II of the Civic Centre Redevelopment.

Based on these figures, the quality of the existing asset base should be maintained at reasonable levels.

3.6(c): Capital Program

The following figures are sourced from the Council's Annual Financial Statements at Special Schedule No. 8 and are not audited. New capital works are major non-recurrent projects.

Capital Program (\$'000s)	Year ended 30 June			
	2012	2011	2010	2009
New capital works	2,825	8,343	4,553	472
Replacement/refurbishment of existing assets	2,138	1,927	4,240	3,029
Total	4,963	10,270	8,793	3,501

Major Capital Works

Civic Centre: Council is redeveloping its administration building and Civic Centre to meet the needs of its staff and community. The project is being funded by a special purpose loan with the repayments being funded by an SRV which that was approved by DLG in 2007 and was boosted by grant funding of \$2.3m from the Federal Government.

Stages 1 and 2 have now been completed which includes:

- State of the art library, twice the size of the old facility
- New accessible customer service area
- New community meeting rooms
- New and refurbished staff accommodation
- Outdoor plaza/forecourt area on Liverpool Road

Work started on Stage 3 in June 2012 and is expected to be completed early 2013. The design and construction of the Stage 3 phase includes:

- The upgrade of Ashfield Town Hall into a 250 seat venue for civic functions and community hire
- A new youth centre
- New archive area
- Construction of a new Community Space

Since the introduction of the Infrastructure Levy SRV Council has completed a number of projects including:

Integrated footpath and bike works	\$0.08m
Herbert St., Thomas St., Seaview and Chandos St. footpath replacement	\$0.1m
Increased Road Resheeting	\$0.08m
Building and Amenities repairs and replacements	\$0.05m
Georges River Road Upgrades	\$0.07m

Future Capital Projects 2013/2014

Holden Street Norton to Liverpool Road Reconstruction	\$0.1m
Integrated footpath and bike works	\$0.1m
Condition 4 road repairs	\$0.7m
Building and Amenities repairs and replacement	\$0.5m

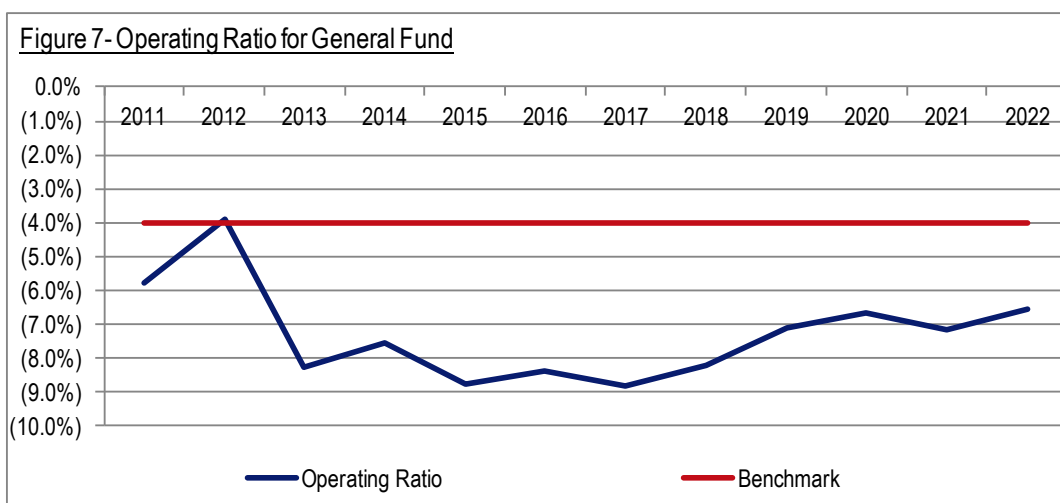
3.7: Specific Risks to Council

- Ageing population. The ageing population is a concern for Ashfield LGA and this trend will increase in the future. This will place pressure on existing infrastructure with more residents relying on fewer for support and increase demand for aged care and community health facilities. In their 2022 Community Plan Council recognises that they need to respond to their increasing ageing population and provide services and programs to support their needs.
- Expiration of SRV. Council currently have an SRV in place to raise funds for infrastructure maintenance. This SRV will cease in 2014 and result in a reduction in rates revenue. The reduction in revenue may cause a decrease in infrastructure maintenance and cause Council's infrastructure assets to deteriorate. Council needs to consider its options for replacing this loss of revenue in 2015.
- Materials and contracts expenses . Materials and contracts expenses make up a significant proportion of Council's overall expense and Council need to look at ways to reduce these expenses.
- LTFP. Based on the existing LTFP, Council do not have sufficient cash reserves to fund their future infrastructure works. Council plan on looking at alternative funding strategies to raise funds for future capital projects such as the redevelopment and upgrades to the Ashfield Aquatic Centre (estimated at \$21.8m) which may include an SRV, borrowings or grant funding. There has been no community consultation in relation to these proposed strategies as yet.

Section 4 Review of Financial Forecasts

The financial forecast model shows the projected financial statements and assumptions for the next 10 years. We have focused our financial analysis upon the General Fund as Council do not operate a Water or Sewer Fund.

4.1: Operating Results



The Operating Ratio shows worsening deficit positions are expected, when capital grants and contributions are excluded in all 10 years of the forecast. Increased rates revenue due to the introduction of the SRV is causing the ratio to peak in 2012.

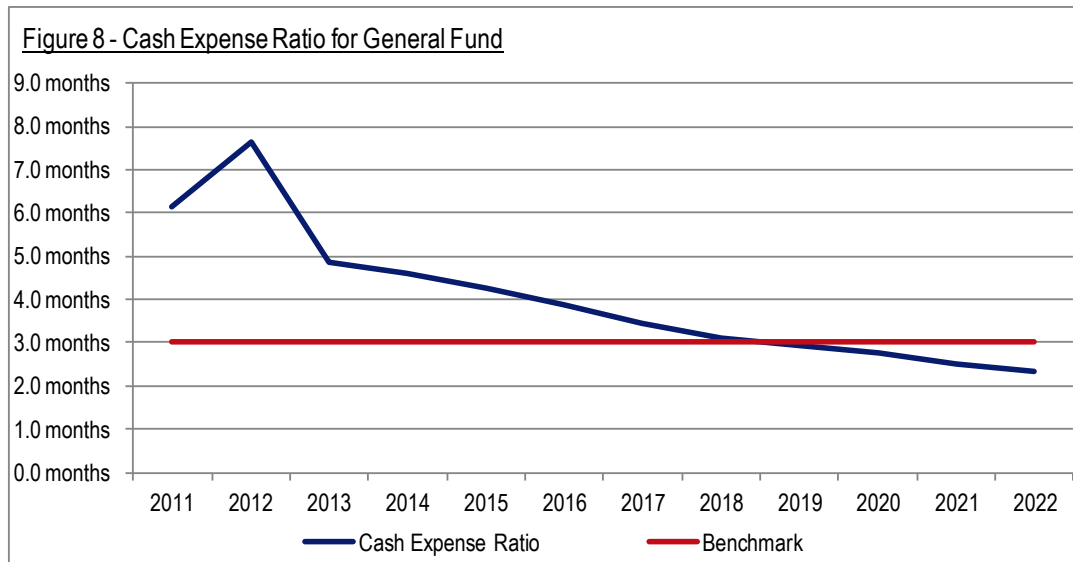
The LTFP was based on the budget figures for 2012 however for the purposes of our report TCorp has used 2012 actual figures. Operating grants were significantly higher than budgeted in 2012 due to the prepayment of half the 2013 FAG. This is causing a sharp decline in the ratio between 2012 and 2013. Council has not actually forecast a decrease in operating grants, however as the 2014 grants may not be prepaid in 2013 this is a more realistic approach.

The ratio fluctuates due to the rate reduction in 2015 and marginally increased other expenses in 2017. From 2018 expenses increase at a lower rate than revenue due to slightly reduced borrowing costs as Council pay down its debt.

* TCorp notes that in calculating the Operating Ratio in Figure 7 that capital grants and contributions have been removed but not necessarily all the costs associated with these capital works projects.

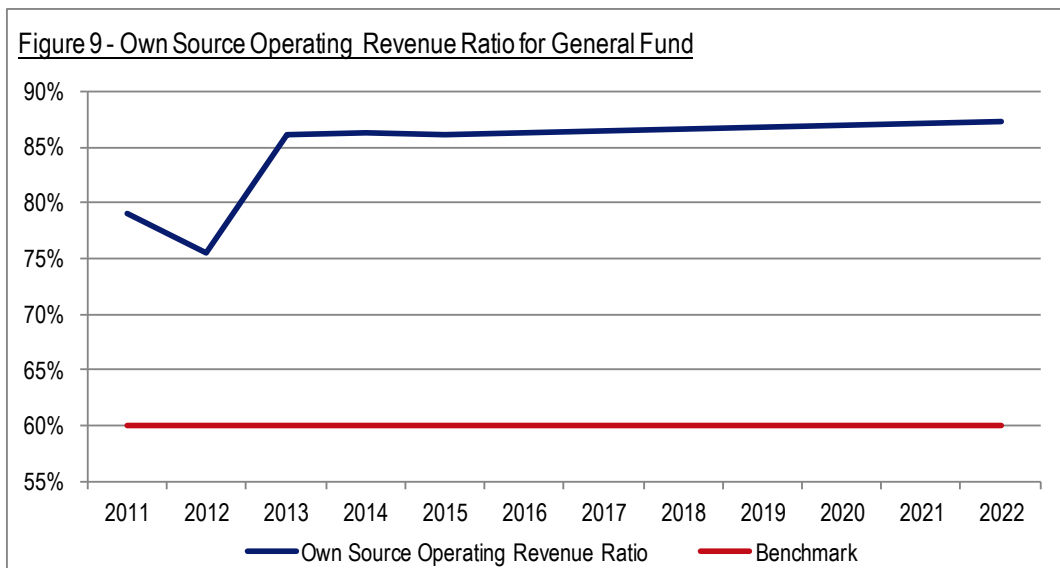
4.2: Financial Management Indicators

Liquidity Ratios



The Cash Expense Ratio is decreasing over the period and falls below benchmark in 2018. It continues to decrease as Council's expenses and IPP&E purchases increase.

Fiscal Flexibility Ratios

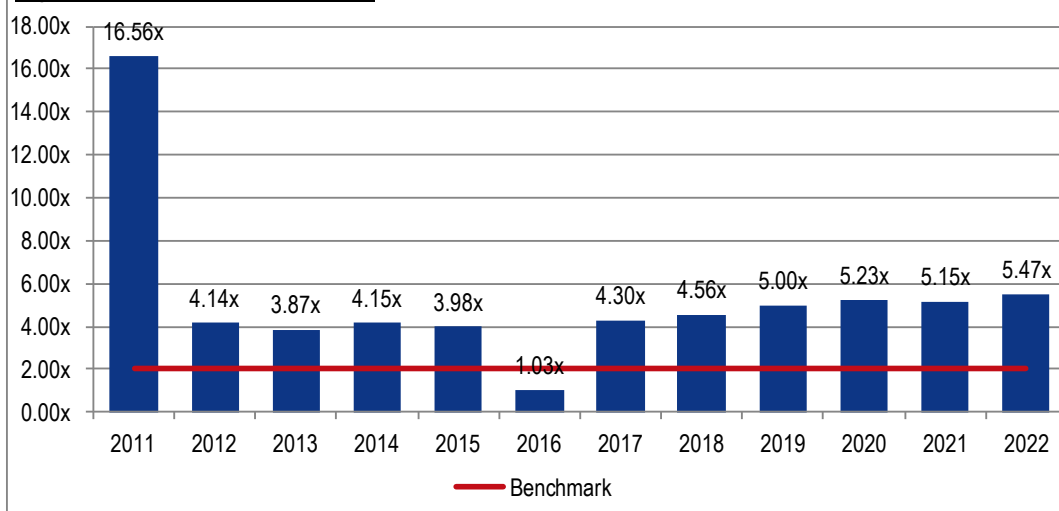


Council's Own Source Operating Revenue Ratio is above benchmark for the entire forecast period. This indicates the Council is not highly reliant on external revenue sources.

The ratio increases sharply in 2013 due to a significant decrease in capital grants that year following the completion of the Civic Centre Redevelopment.

The ratio remains at levels above 85% for the remainder of the forecast period due to capital grants and contributions being forecast at significantly lower than historic levels.

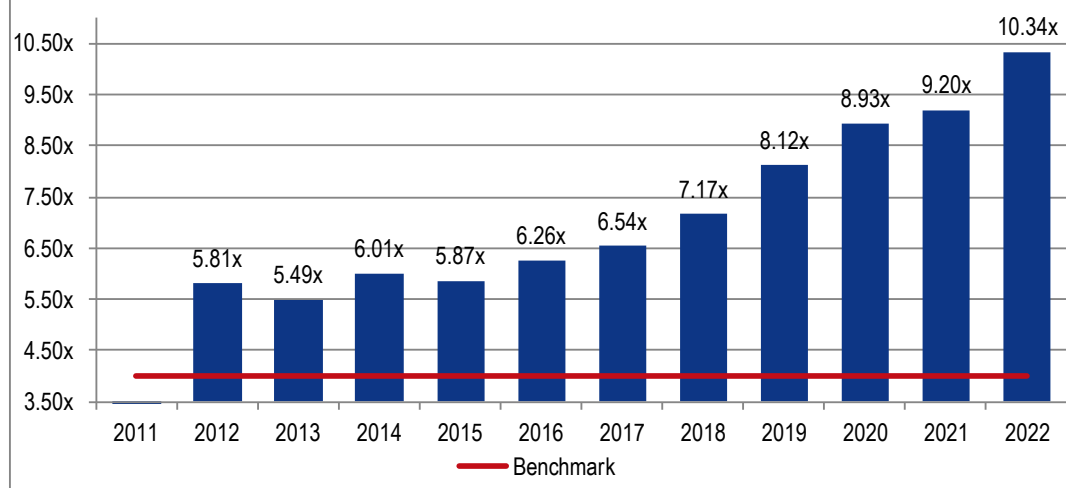
Figure 10 - DSCR for General Fund



The DSCR is above the benchmark of 2.00x in nine of the 10 years of the forecast. This indicates that Council has the financial capacity to manage their existing debt. In 2011 Council only has principal repayments as their interest costs are capitalised.

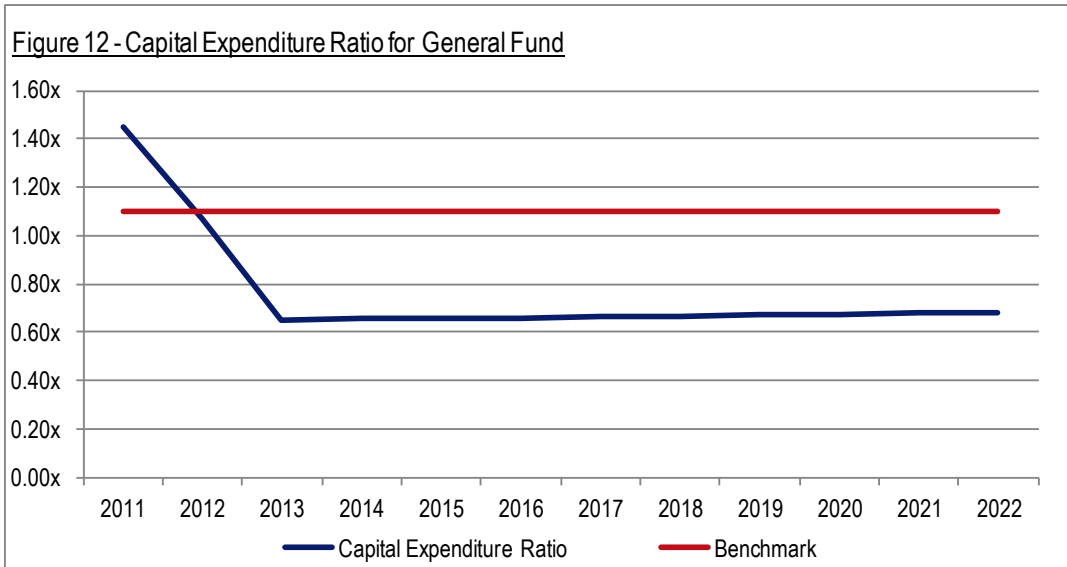
In 2016 Council plans to refinance one of their existing loans for the Civic Centre redevelopment. Council advise this loan will be serviced through SRV income.

Figure 11 - Interest Cover Ratio for General Fund



Council's Interest Cover Ratio is above benchmark in each year of the forecast. In 2011 Council capitalised all their interest costs therefore there is no ratio in that year. The Ratio increases over the period as Council pays down its debt.

4.3: Capital Expenditure



The Capital Expenditure Ratio falls below benchmark in 2012 and remains below benchmark for the entire forecast period.

The decrease from 2011 to 2013 follows the completion of the Civic Centre redevelopment.

The low levels of capital expenditure forecast from 2012 will increase pressure on existing assets.

Council has completed their AMP and have measured their current backlog. Council will be doing a full review of their LTFP and funding requirements in 2013.

4.4: Financial Model Assumption Review

Councils has used their own assumptions in developing their forecasts.

In order to evaluate the validity of the Council's forecast model, TCorp has compared the model assumptions versus TCorp's benchmarks for annual increases in the various revenue and expenditure items. Any material differences from these benchmarks should be explained through the LTFP.

TCorp's benchmarks:

- Rates and annual charges: TCorp notes that the LGCI increased by 3.4% in the year to September 2011, and in December 2011, IPART announced that the rate peg to apply in the 2012/13 financial year will be 3.6%. Beyond 2013 TCorp has assessed a general benchmark for rates and annual charges to increase by mid-range LGCI annual increases of 3.0%
- Interest and investment revenue: annual return of 5%
- All other revenue items: the estimated annual CPI increase of 2.5%
- Employee costs: 3.5% (estimated CPI+1%)
- All other expenses: the estimated annual CPI increase of 2.5%

Key Observations and Risks

- Rates and annual charges are forecast to increase by approximately 3.4% p.a. over the forecast period with the exception of 2015 when they are forecast to decrease by 0.43% as per the conditions set by DLG on Council's existing SRV approval.
- User fees and charges are forecast to increase by 5.0% p.a. over the entire forecast period. This would seem ambitious given the decrease of 15.8% in 2012. Council advised that they normally increases their fees and charges (excluding statutory fees) by CPI plus 3% and do benchmarking exercises during the user fees and charges reviews. While 2012 saw a decrease, 2010 and 2011 both had increases of 5.1% and 11.7% so they consider 5.0% p.a. reasonable.
- The LTFP forecast submitted was based on Council's 2012 budget figures, however as we have used 2012 actual figures in our assessment and employee costs did not increase at the level budgeted, the percentage increase in 2013 is higher. From 2014 employee expenses are forecast to increase by 4.0% p.a. Given the decrease achieved in 2011 and the increase of 3.8% in 2012 we consider this reasonable.
- Materials and contracts costs are forecast to decrease by 24.0% in 2013 due to the completion of the Civic Centre redevelopment. From 2014 onwards they are forecast to increase by 2.5% p.a. which we consider reasonable.
- Overall we consider the assumptions used in the LTFP reasonable. The LTFP submitted is assumed at current service levels at this time.

4.5: Borrowing Capacity

When analysing the financial capacity of the Council based on the financial forecast submitted, Council should not incorporate additional loan funding in addition to its existing debt facilities.

While its DSCR and Interest Cover Ratio are well above benchmark in the forecast, given the continuous operating deficits, we would not consider it prudent for Council to not undertake any additional borrowings in their General Fund.

4.6 Sustainability

Ashfield Council is focussed on their environment and sustainable living. It runs workshops and programs such as a Bush Regeneration Workshop, Ashfield Eco Challenge and National Tree Day to educate their community on these issues. Council has a Sustainability Action Table in place which outlines targets and actions to improve Council's and the LGA's waste, biodiversity, water, energy, climate change, and transport.

Council has adopted an Integrated Water Management Plan to deliver best practice management of water. The plan is designed to monitor a number of key areas;

- Water demand. A greater demand is expected in the future for their limited water supply
- Increasing charges
- Water restrictions and water management regulatory requirements
- Climate change causing reduced availability of water supplies and increased pressure on the stormwater systems
- Technology in developing water recycling, stormwater reuse and stormwater treatment

To achieve all their goals Council will need to partner with Federal, State and Local governments, non-government bodies as well as businesses and residents.

Council has also implemented the Cooks River to Iron Cove Greenway sustainability Project. This is an urban green corridor for wildlife, community walking and cycling in Sydney's Inner West. The Greenway Sustainability Project costing \$1.83m is funded by the NSW Environmental Trust and is in the final stages of Implementation.

In considering the longer term financial Sustainability of the Council we make the following comments:

- Council's historical financial position has been strong with the majority of their performance indicators above benchmark
- Council's current LTFP shows a deficit position is expected over the forecast period with operating results and liquidity trending downwards. Capital expenditure is at levels well below what is required to maintain assets at an acceptable standard

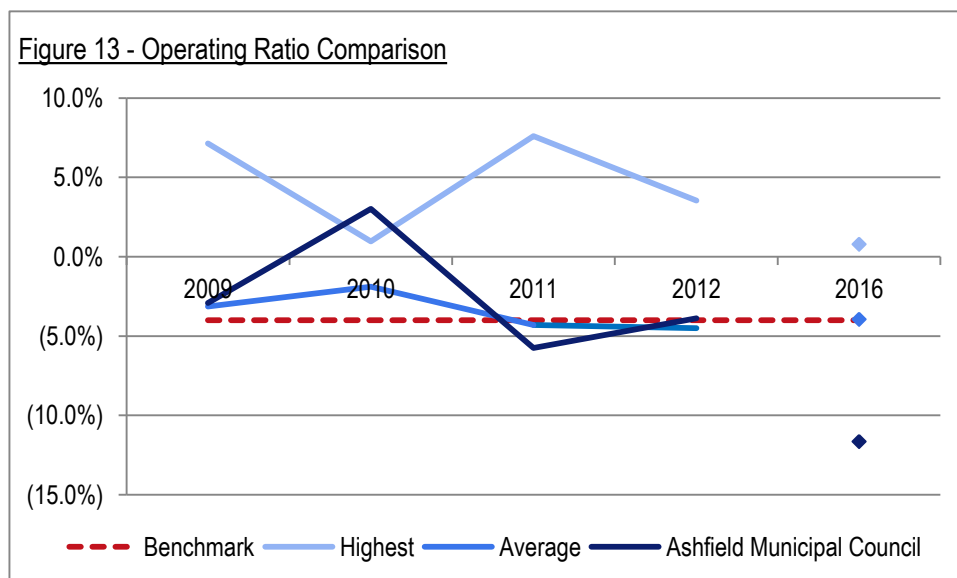
Section 5 Benchmarking and Comparisons with Other Councils

As discussed in section 2 of this report, each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis (that is, for councils that operate more than one fund, the results of all funds are included). This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 2. There are 14 councils in this group and at the time of preparing this report, we have data for all of these councils.

In Figure 13 to Figure 19, the graphs compare the historical performance of Council with the benchmark for that ratio, with the average for the Group, with the highest performance (or lowest performance in the case of the Infrastructure Backlog Ratio where a low ratio is an indicator of strong performance), and with the forecast position of the Council as at 2016 (as per Council's LTFP). Figures 20 to 22 do not include the 2016 forecast position as those numbers are not available.

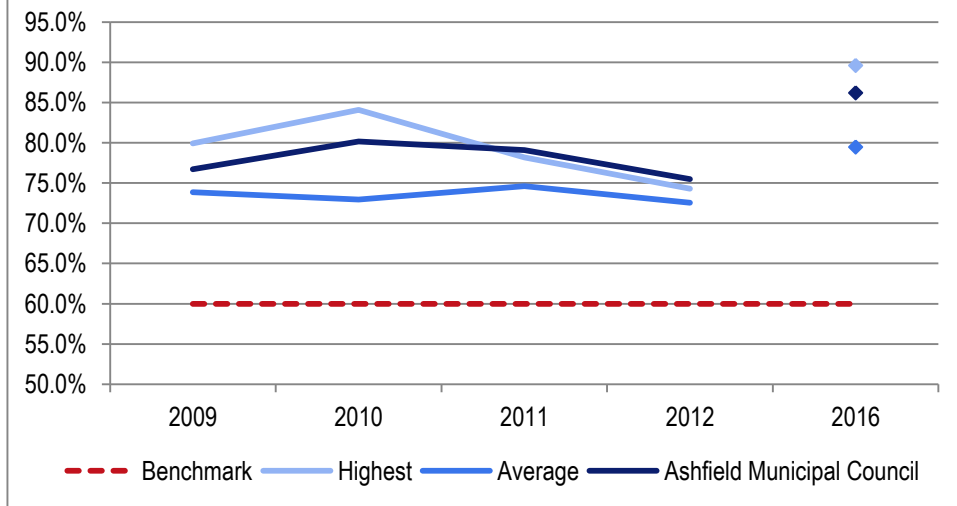
Where no highest line is shown on the graph, this means that Council is the best performer in its group for that Ratio. For the Interest Cover Ratio and Debt Service Cover Ratio, we have excluded the highest Councils because very low debt levels have resulted in very high ratios.

Financial Flexibility



Council's Operating Ratio was above benchmark and the group average until 2011 when increased depreciation impacted the result. The introduction of an SRV improves the result in 2012. Council's operating result is forecast to deteriorate in the medium term to well below benchmark and the group average.

Figure 14 - Own Source Operating Revenue Ratio Comparison



Council's Own Source Operating Revenue Ratio outperformed benchmark and the group average over the review period. The proportion of own sourced revenue is forecast to increase over the medium term consistent with other councils in the group.

Currently Council's financial flexibility is above the group average and forecast to remain sound.

Liquidity

Figure 15 - Cash Expense Ratio Comparison

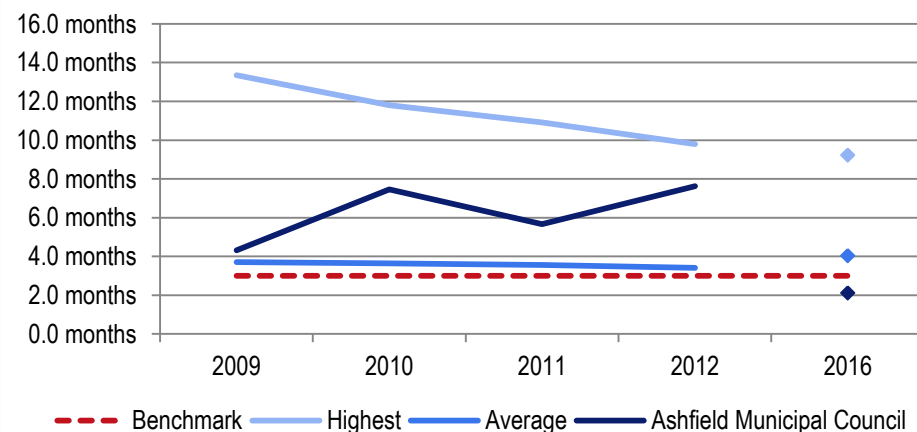
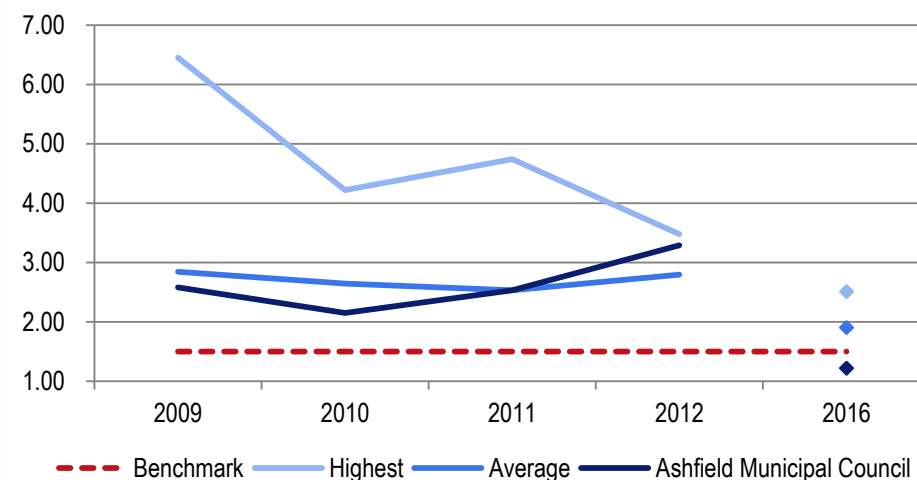


Figure 16 - Unrestricted Current Ratio Comparison



Council's Cash Expense Ratio outperformed the group average over the review period. The ratio is forecast to decrease below the group average and benchmark levels in the medium term.

The Unrestricted Current Ratio was below the group average until 2011 but above benchmark levels, indicating Council's ability to meet its debt payments is sufficient in the short-term. The ratio deteriorates below the group average and benchmark levels in the medium term.

Overall this indicates that Council is in a deteriorating liquidity position compared to the average council in the group.

Debt Servicing

Figure 17 - Debt Service Cover Ratio Comparison

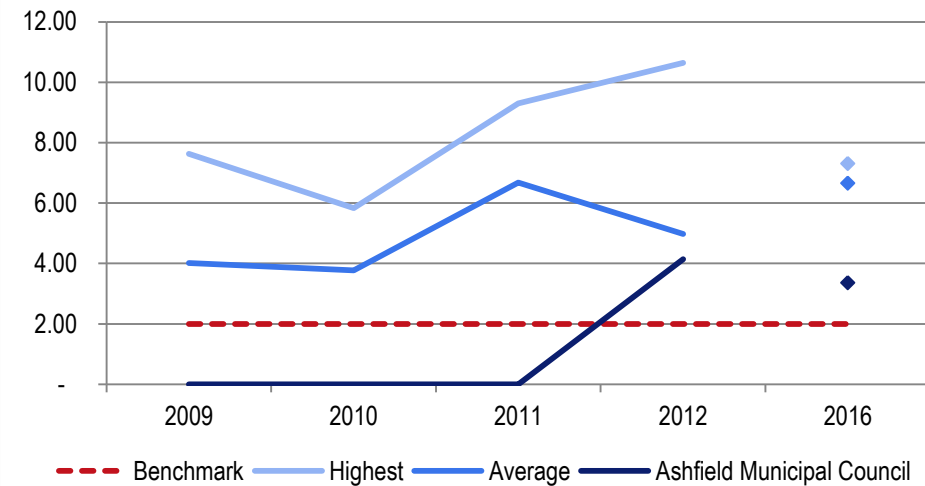
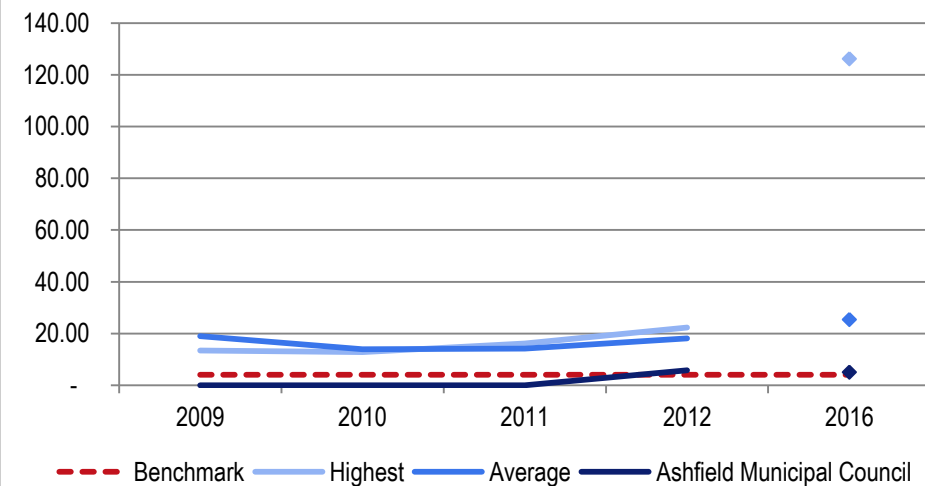


Figure 18 - Interest Cover Ratio Comparison



Council had no borrowings in 2009 and while Council had principal repayment in 2011 their interest costs were capitalised and therefore had no Interest Cover Ratio prior to 2012. Similarly they had no DSCR prior to 2011. Overall Council's Debt Servicing Ratios are forecast to remain acceptable over the medium term.

Asset Renewal and Capital Works

Figure 19 - Capital Expenditure Ratio Comparison

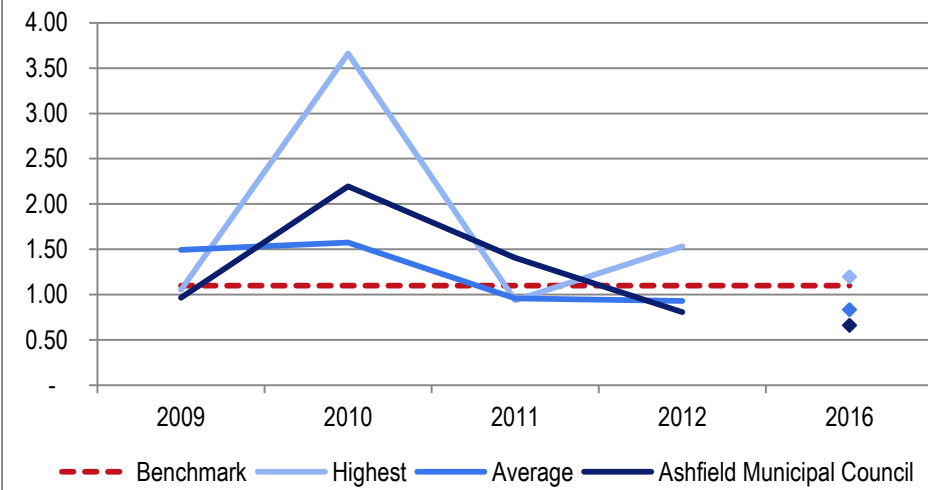


Figure 20 - Asset Maintenance Ratio Comparison

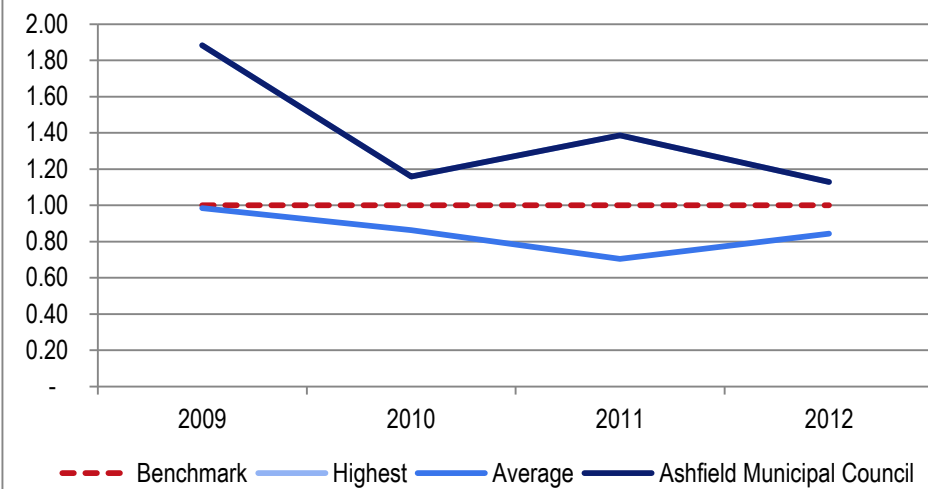


Figure 21- Infrastructure Backlog Ratio Comparison

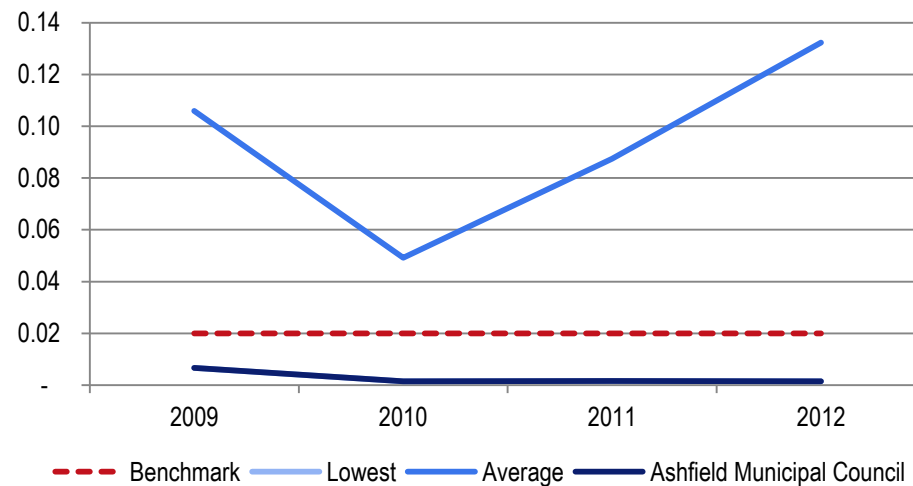
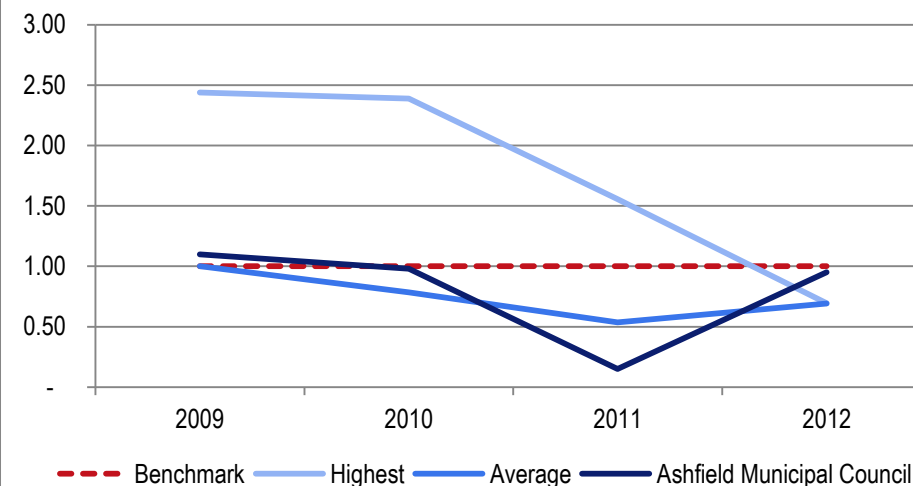


Figure 24 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog has been below the group's average and benchmark levels in the past four reflecting Council's low backlog however Council has not reported any roads backlog.

Council's Asset Maintenance Ratio has outperformed the group over the review period indicating Council are spending sufficient to maintain their assets at an acceptable level. The Building and Infrastructure Asset Renewal Ratio has generally tracked benchmark levels although declined in 2011 due to a delay on some of Council's infrastructure program which was carried over to 2012.

Council's Capital Expenditure Ratio has generally been above benchmark and outperformed the group average although it is forecast to decline in the medium term in line with other councils.

Section 6 Conclusion and Recommendations

Based on our review of both the historic financial information and the 10 year financial forecast within Council's long term financial plan we consider Council to be reasonably sustainable.

We base our recommendation on the following key points:

- Council's operating expenses have been maintained at consistent levels for the past two years
- The majority of Council's performance indicators were above benchmark between 2009 and 2012
- Council is currently spending sufficiently to maintain their assets at an acceptable standard
- Council's capital expenditure has been decreasing over the past three years and is forecast well below benchmark in the LTFP which indicates Council could face Sustainability issues in the future.
- Council's Operating Ratio is forecast below benchmark for the entire forecast period
- Council's DSCR and Interest Cover Ratio are above benchmark for the majority of the forecast period

We would also recommend that the following points be considered:

- Council should develop strategies to diversify and grow its revenue base
- Council's materials and contracts expenses make up a significant proportion of Council's overall expense and Council needs to continue to look at ways to reduce these expenses
- Capital expenditure is forecast to be below benchmark from 2013 onwards. Based on this forecast, the quality of the asset base may decline and Council will need to focus on improving this if current service levels are to be maintained

Appendix A Historical Financial Information Tables

Table 1- Income Statement

Income Statement (\$'000s)	Year ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Revenue							
Rates and annual charges	24,249	22,779	21,929	20,383	6.5%	3.9%	7.6%
User charges and fees	2,441	2,899	2,595	2,468	(15.8%)	11.7%	5.1%
Interest and investment revenue	834	945	790	195	(11.7%)	19.6%	305.1%
Grants and contributions for operating purposes	2,913	3,329	3,159	2,893	(12.5%)	5.4%	9.2%
Other revenues	1,749	1,659	1,603	1,390	5.4%	3.5%	15.3%
Total revenue	32,186	31,611	30,076	27,329	1.8%	5.1%	10.1%
Expenses							
Employees	13,250	12,769	13,464	12,120	3.8%	(5.2%)	11.1%
Borrowing costs	795	0	0	0	N/A	N/A	N/A
Materials and contract expenses	10,227	9,823	8,663	9,869	4.1%	13.4%	(12.2%)
Depreciation and amortisation	5,072	7,121	3,849	3,627	(28.8%)	85.0%	6.1%
Other expenses	4,093	3,719	3,385	2,919	10.1%	9.9%	16.0%
Total expenses	33,437	33,432	29,361	28,535	0.0%	13.9%	2.9%
Operating result (excluding capital grants and contributions)	(1,251)	(1,821)	715	(1,206)	31.3%	(354.7%)	159.3%
Operating result (including capital grants and contributions)	1,917	(966)	320	847	298.4%	(401.9%)	(62.2%)

Table 2 - Items excluded from Income Statement

Excluded items (\$'000s)				
	2012	2011	2010	2009
Grants and contributions for capital purposes	3,168	855	320	2,053
Fair Value Adjustment (FVA) on Interest revenue/(losses)	3	59	201	(400)
Net gain/(losses) from the disposal of assets	(636)	(85)	(104)	(546)

Table 3 - Balance Sheet

Balance Sheet (\$'000s)	Year Ended 30 June			
	2012	2011	2010	2009
Current assets				
Cash and cash equivalents	17,521	12,428	15,848	8,953
Investments	0	937	1,100	1,013
Receivables	1,572	1,599	1,322	1,133
Inventories	38	40	44	45
Other	313	104	354	373
Total current assets	19,444	15,108	18,668	11,517
Non-current assets				
Investments	40	100	978	777
Receivables	149	102	71	56
Inventories	0	0	0	0
Infrastructure, property, plant & equipment	243,095	244,072	241,182	186,151
Investment property	0	0	0	0
Total non-current assets	243,284	244,274	242,231	186,984
Total assets	262,728	259,382	260,899	198,501
Current liabilities				
Payables	3,709	3,798	3,788	2,829
Borrowings	482	320	320	0
Provisions	4,086	3,780	4,028	3,599
Total current liabilities	8,277	7,898	8,136	6,428
Non-current liabilities				
Borrowings	10,478	8,860	9,180	0
Provisions	283	218	185	232
Total non-current liabilities	10,761	9,078	9,365	232
Total liabilities	19,038	16,976	17,501	6,660
Net assets	243,690	242,406	243,398	191,841

Table 4-Cashflow

Cashflow Statement (\$'000s)	Year ended 30 June			
	2012	2011	2010	2009
Cashflows from operating activities	7,516	5,964	5,676	5,142
Cashflows from investing activities	(4,203)	(9,064)	(8,281)	(1,641)
Proceeds from borrowings and advances	2,100	0	9,500	0
Repayment of borrowings and advances	(320)	(320)	0	0
Cashflows from financing activities	1,780	(320)	9,500	0
Net increase/(decrease) in cash and equivalents	5,093	(3,420)	6,895	3,501
Cash and equivalents	17,521	12,428	15,848	8,953

Appendix B Glossary

Asset Revaluations

In assessing the financial sustainability of NSW councils, IPART found that not all councils reported assets at fair value.¹ In a circular to all councils in March 2009², DLG required all NSW councils to revalue their infrastructure assets to recognise the fair value of these assets by the end of the 2009/10 financial year.

Collateralised Debt Obligation (CDO)

CDOs are structured financial securities that banks use to repackage individual loans into a product that can be sold to investors on the secondary market.

In 2007 concerns were heightened in relation to the decline in the “sub-prime” mortgage market in the USA and possible exposure of some NSW councils, holding CDOs and other structured investment products, to losses.

In order to clarify the exposure of NSW councils to any losses, a review was conducted by the DLG with representatives from the Department of Premier and Cabinet and NSW Treasury.

A revised Ministerial investment Order was released by the DLG on 18 August 2008 in response to the review, suspending investments in CDOs, with transitional provisions to provide for existing investments.

Division of Local Government (DLG)

DLG is a division of the NSW Department of Premier and Cabinet and is responsible for local government across NSW. DLG’s organisational purpose is “to strengthen the local government sector” and its organisational outcome is “successful councils engaging and supporting their communities”. Operating within several strategic objectives DLG has a policy, legislative, investigative and program focus in matters ranging from local government finance, infrastructure, governance, performance, collaboration and community engagement. DLG strives to work collaboratively with the local government sector and is the key adviser to the NSW Government on local government matters.

Depreciation of Infrastructure Assets

Linked to the asset revaluations process stated above, IPART’s analysis of case study councils found that this revaluation process resulted in sharp increases in the value of some council’s assets. In some cases this has led to significantly higher depreciation charges, and will contribute to higher reported operating deficits.

¹IPART “Revenue Framework for Local Government” December 2009 p.83

² DLG “Recognition of certain assets at fair value” March 2009

EBITDA

EBITDA is an acronym for “earnings before interest, taxes, depreciation, and amortisation”. It is often used to measure the cash earnings that can be used to pay interest and repay principal.

Grants and Contributions for Capital Purposes

Councils receive various capital grants and contributions that are nearly always 100% specific in nature. Due to the fact that they are specifically allocated in respect of capital expenditure they are excluded from the operational result for a council in TCorp’s analysis of a council’s financial position.

Grants and Contributions for Operating Purposes

General purpose grants are distributed through the NSW Local Government Grants Commission. When distributing the general component each council receives a minimum amount, which would be the amount if 30% of all funds were allocated on a per capita basis. When distributing the other 70%, the Grants Commission attempts to assess the extent of relative disadvantage between councils. The approach taken considers cost disadvantage in the provision of services on the one hand and an assessment of revenue raising capacity on the other.

Councils also receive specific operating grants for one-off specific projects that are distributed to be spent directly on the project that the funding was allocated to.

Independent Commission Against Corruption (ICAC)

ICAC was established by the NSW Government in 1989 in response to growing community concern about the integrity of public administration in NSW.

The jurisdiction of the ICAC extends to all NSW public sector agencies (except the NSW Police Force) and employees, including government departments, local councils, members of Parliament, ministers, the judiciary and the governor. The ICAC’s jurisdiction also extends to those performing public official functions.

Independent Pricing and Regulatory Tribunal (IPART)

IPART has four main functions relating to the 152 local councils in NSW. Each year, IPART determines the rate peg, or the allowable annual increase in general income for councils. They also review and determine council applications for increases in general income above the rate peg, known as “Special Rate Variations”. They approve increases in council minimum rates. They also review council development contributions plans that propose contribution levels that exceed caps set by the Government.

Infrastructure Backlog

Infrastructure backlog is defined as the estimated cost to bring infrastructure, building, other structures and depreciable land improvements to a satisfactory standard, measured at a particular point in time. It is unaudited and stated within Special Schedule 7 that accompanies the council’s audited annual financial statements.

Integrated Planning and Reporting (IP&R) Framework

As part of the NSW Government's commitment to a strong and sustainable local government system, the *Local Government Amendment (Planning and Reporting) Act 2009* was assented on 1 October 2009. From this legislative reform the IP&R framework was devised to replace the former Management Plan and Social Plan with an integrated framework. It also includes a new requirement to prepare a long-term Community Strategic Plan and Resourcing Strategy. The other essential elements of the new framework are a Long-Term Financial Plan (LTFP), Operational Plan and Delivery Program and an Asset Management Plan.

Local Government Cost Index (LGCI)

The LGCI is a measure of movements in the unit costs incurred by NSW councils for ordinary council activities funded from general rate revenue. The LGCI is designed to measure how much the price of a fixed "basket" of inputs acquired by councils in a given period compares with the price of the same set of inputs in the base period. The LGCI is measured by IPART.

Net Assets

Net Assets is measured as total assets less total liabilities. The Asset Revaluations over the past years have resulted in a high level of volatility in many councils' Net Assets figure. Consequently, in the short term the value of Net Assets is not necessarily an informative indicator of performance. In the medium to long term however, this is a key indicator of a council's capacity to add value to its operations. Over time, Net Assets should increase at least in line with inflation plus an allowance for increased population and/or improved or increased services. Declining Net Assets is a key indicator of the council's assets not being able to sustain ongoing operations.

Roads and Maritime Services (RMS)

The NSW State Government agency with responsibility for roads and maritime services, formerly the Roads and Traffic Authority (RTA).

Section 64 Contribution

Development Servicing Plans (DSPs) are made under the provisions of Section 64 of the Local Government Act 1993 and Sections 305 to 307 of the Water Management Act 2000.

DSPs outline the developer charges applicable to developments for Water, Sewer and Stormwater within each Local Government Area.

Section 94 Contribution

Section 94 of the Environmental Planning and Assessment Act 1979 allows councils to collect contributions from the development of land in order to help meet the additional demand for community and open space facilities generated by that development.

It is a monetary contribution levied on developers at the development application stage to help pay for additional community facilities and/or infrastructure such as provision of libraries; community facilities; open space; roads; drainage; and the provision of car parking in commercial areas.

The contribution is determined based on a formula which should be contained in each council's Section 94 Contribution Plan, which also identifies the basis for levying the contributions and the works to be undertaken with the funds raised.

Special Rate Variation (SRV)

A SRV allows councils to increase general income above the rate peg, under the provisions of the Local Government Act 1993. There are two types of special rate variations that a council may apply for:

- a single year variation (section 508(2)) or
- a multi-year variation for between two to seven years (section 508A).

The applications are reviewed and approved by IPART.

Ratio Explanations

Asset Maintenance Ratio

Benchmark = Greater than 1.0x

Ratio = actual asset maintenance / required asset maintenance

This ratio compares actual versus required annual asset maintenance, as detailed in Special Schedule 7. A ratio of above 1.0x indicates that the council is investing enough funds within the year to stop the infrastructure backlog from growing.

Building and Infrastructure Renewals Ratio

Benchmark = Greater than 1.0x

Ratio = Asset renewals / depreciation of building and infrastructure assets

This ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation. Asset renewal represents the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance.

Cash Expense Cover Ratio

Benchmark = Greater than 3.0 months

Ratio = current year's cash and cash equivalents / (total expenses – depreciation – interest costs)*12

This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow.

Capital Expenditure Ratio

Benchmark = Greater than 1.1x

Ratio = annual capital expenditure / annual depreciation

This indicates the extent to which a council is forecasting to expand its asset base with capital expenditure spent on both new assets, and replacement and renewal of existing assets.

Debt Service Cover Ratio (DSCR)

Benchmark = Greater than 2.0x

Ratio = operating results before interest and depreciation (EBITDA) / principal repayments (from the statement of cash flows) + borrowing interest costs (from the income statement)

This ratio measures the availability of cash to service debt including interest, principal and lease payments

Building and Infrastructure Backlog Ratio

Benchmark = Less than 0.02x

Ratio = estimated cost to bring assets to a satisfactory condition (from Special Schedule 7) / total infrastructure assets (from Special Schedule 7)

This ratio shows what proportion the backlog is against total value of a council's infrastructure.

Interest Cover Ratio

Benchmark = Greater than 4.0x

Ratio = EBITDA / interest expense (from the income statement)

This ratio indicates the extent to which a council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon a council's operating cash.

Operating Ratio

Benchmark = Better than negative 4%

Ratio = (operating revenue excluding capital grants and contributions – operating expenses) / operating revenue excluding capital grants and contributions

This ratio measures a council's ability to contain operating expenditure within operating revenue.

Own Source Operating Revenue Ratio

Benchmark = Greater than 60%

Ratio = rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)

This ratio measures the level of a council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue.

Unrestricted Current Ratio

Benchmark = 1.5x (taken from the IPART December 2009 Revenue Framework for Local Government report)

Ratio = Current assets less all external restrictions / current liabilities less specific purpose liabilities

Restrictions placed on various funding sources (e.g. Section 94 developer contributions, RMS contributions) complicate the traditional current ratio because cash allocated to specific projects are restricted and cannot be used to meet a council's other operating and borrowing costs. The Unrestricted Current Ratio is specific to local government and is designed to represent a council's ability to meet debt payments as they fall due.